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Medical Cost Trend Behind the Numbers 2018

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July 25, 2017

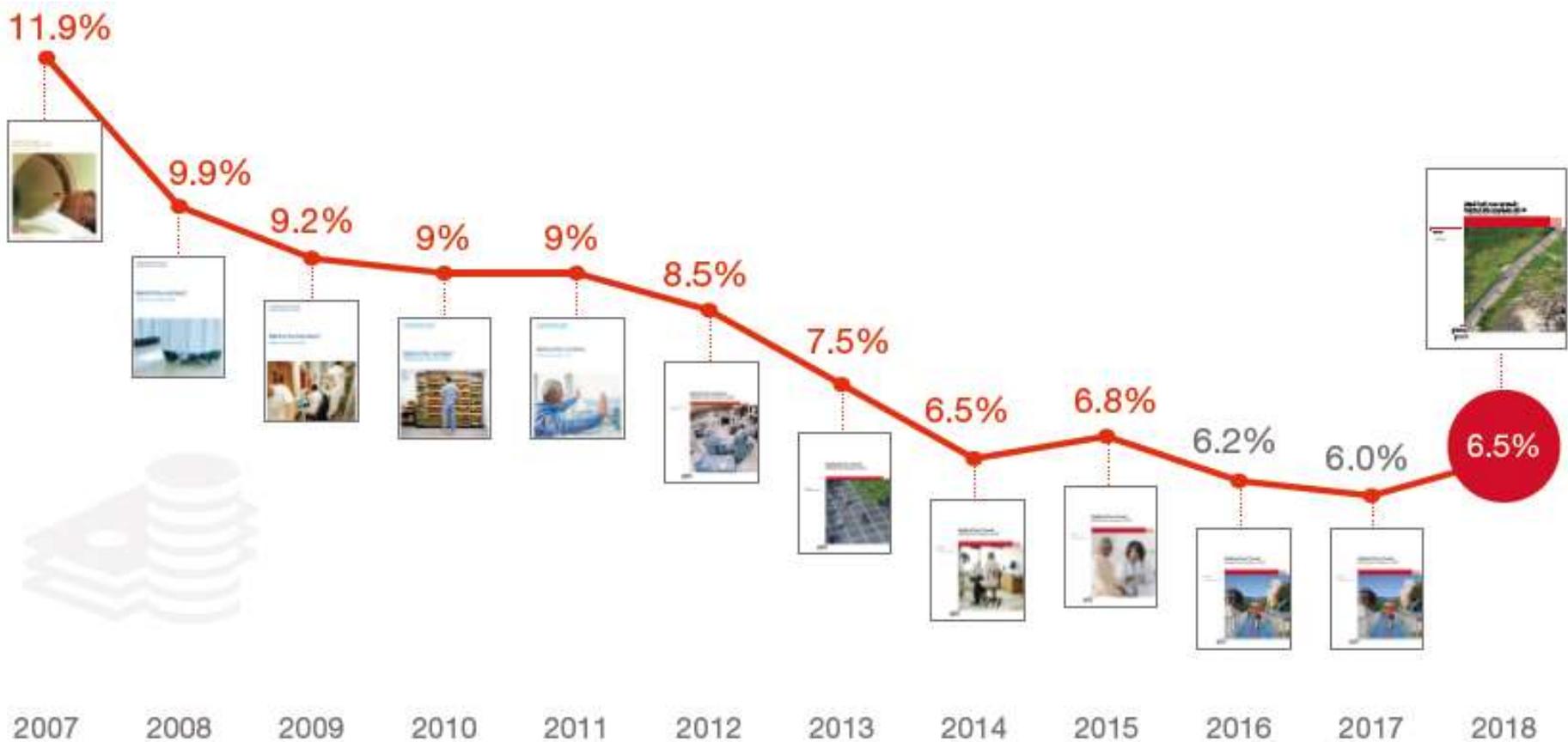
The Alliance

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HRI's projected medical cost trend 2007-2018

HRI projects a medical cost trend of 6.5% in 2018; a slight uptick from 2017

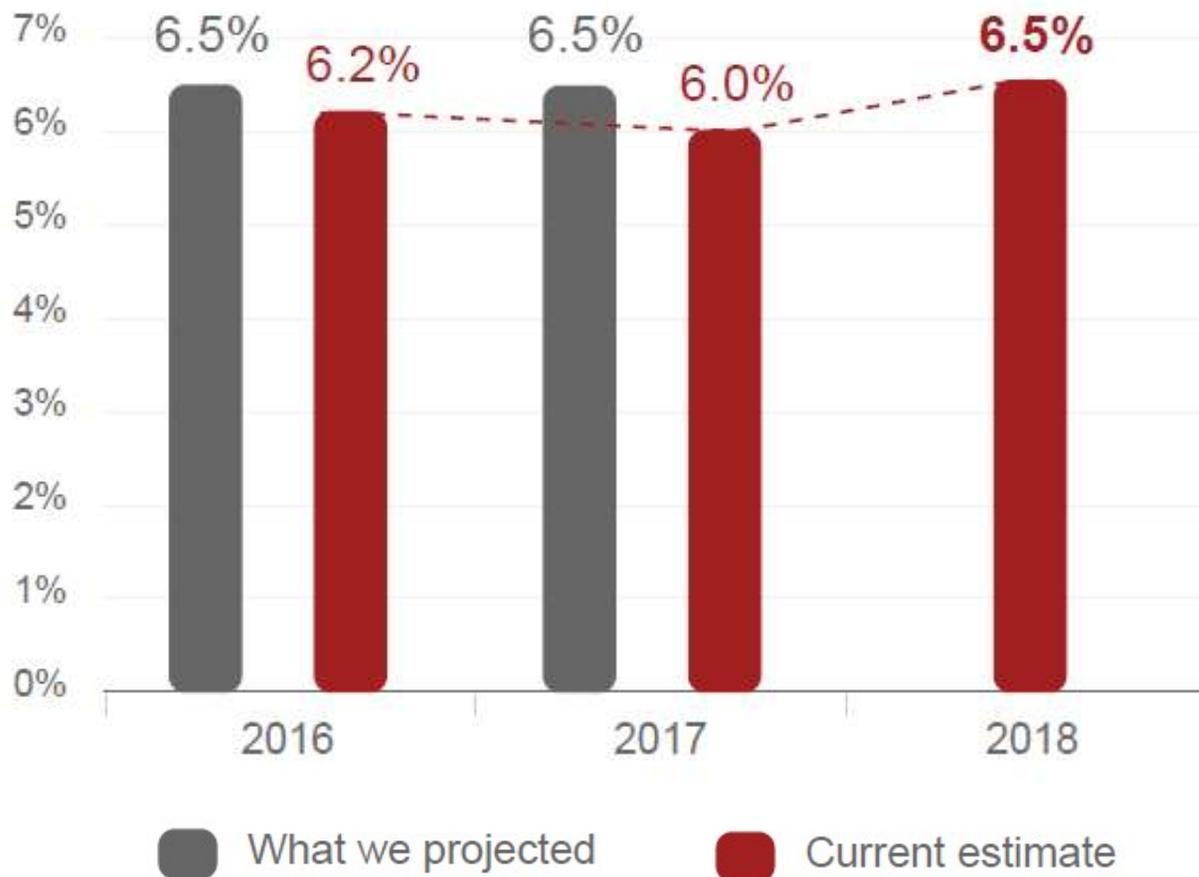
After plan design changes, the net growth rate is expected to be 5.5%



Source: PwC Health Research Institute medical cost trends 2007-2018. HRI recalibrated its trend estimates down for 2016 and 2017.

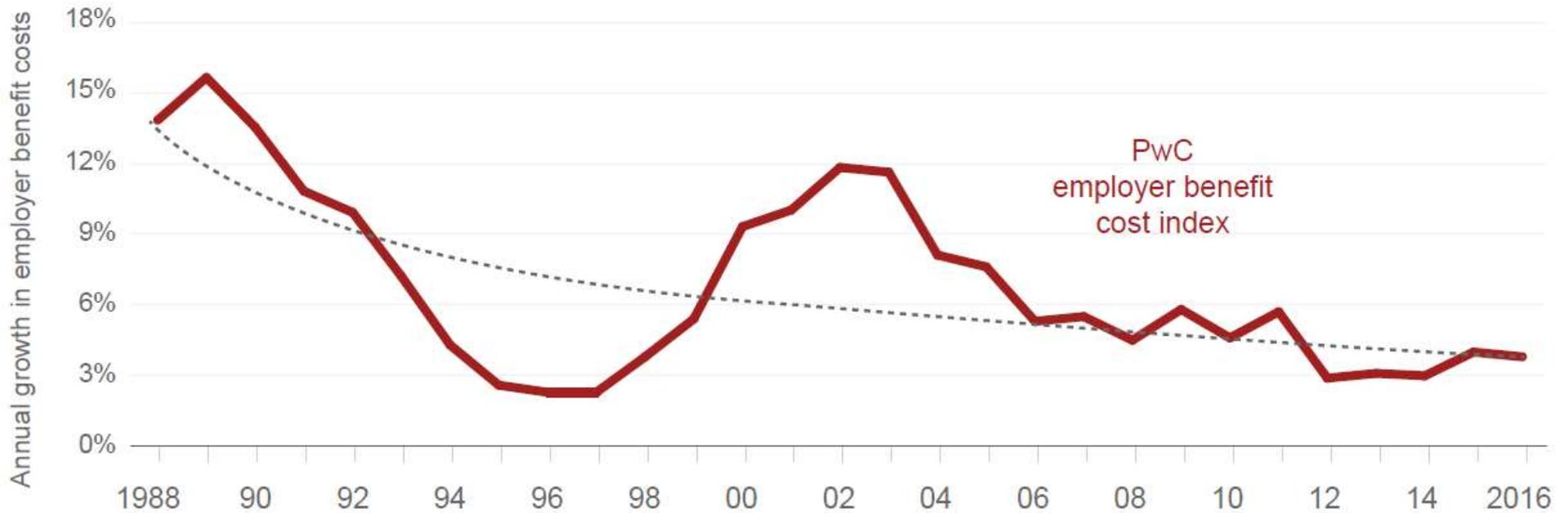
HRI recalibrated its medical cost trend estimates down for 2016 and 2017

Adjusted estimates based on new data showing lower than anticipated medical costs in 2016 and 2017



Source: PwC Health Research Institute analysis

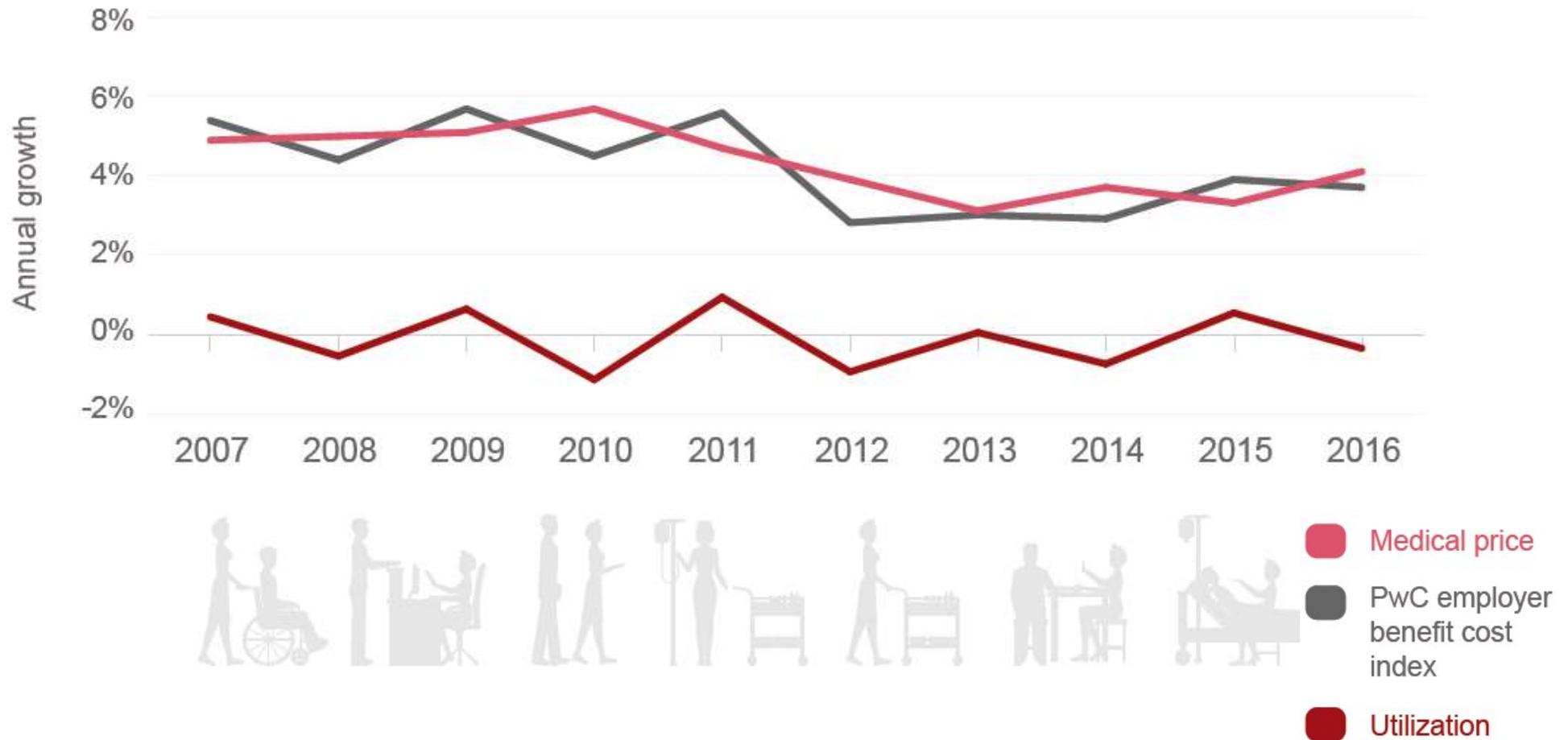
Growth in employer medical costs - which has been gradually declining for decades - is settling into a "new normal" characterized by flatter, single-digit trend



Source: PwC Health Research Institute analysis of CMS National Health Expenditure Accounts, Kaiser Family Foundation, and Bureau of Labor and Statistics data

Price continues to be a major driver of medical cost trend

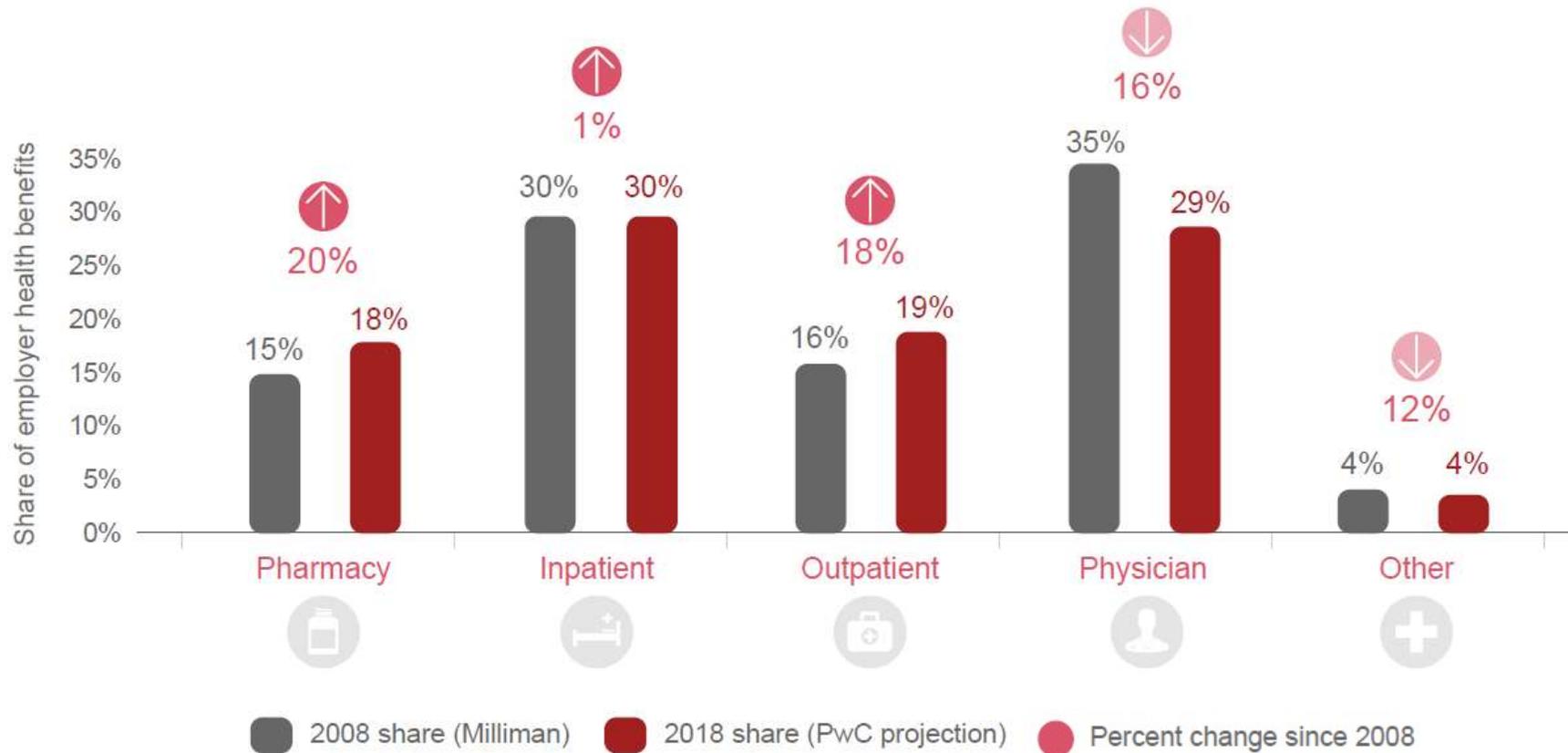
Components of growth in employer benefit costs, 2007-2016



Source: PwC Health Research Institute analysis of Bureau of Labor and Statistics data

Roughly half of employer health costs stem from hospital inpatient and outpatient services; the prescription drug share is small but increasing

Share of employer healthcare spending in 2008 and projected 2018



Source: Milliman Medical Index for 2008 and PwC Health Research Institute projections of 2017 medical spending based on the 2017 Milliman Medical Index. <http://us.milliman.com/insight/?pflid=2413>

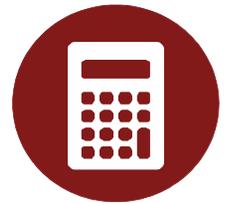
Medical cost trend's "usual suspects"

In addition to inflators and deflators tied to a particular year, these perennial factors place upward and downward pressure on cost trend

Economywide
drivers



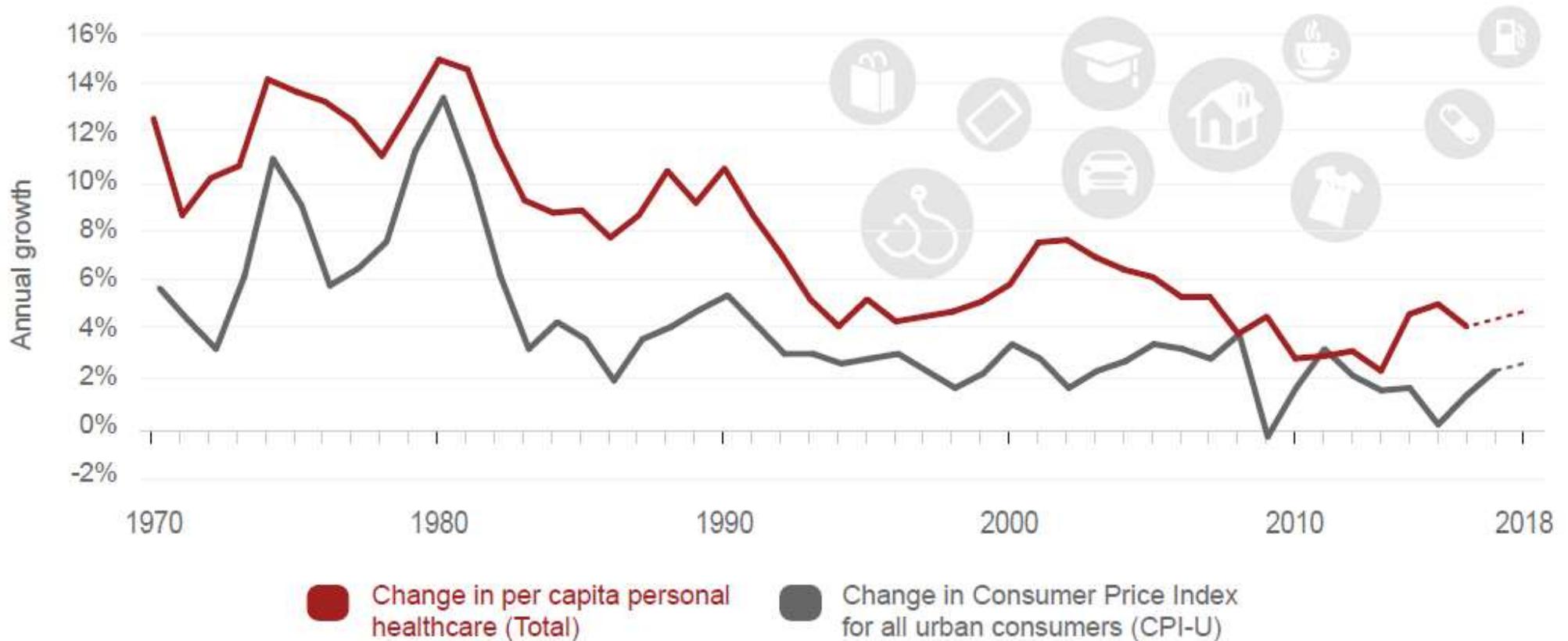
Healthcare-
specific
drivers



Inflator #1: Rising general inflation impacts healthcare

US healthcare spending historically tracks the Consumer Price Index

Growth in personal healthcare expenditures versus CPI, 1970 - 2018

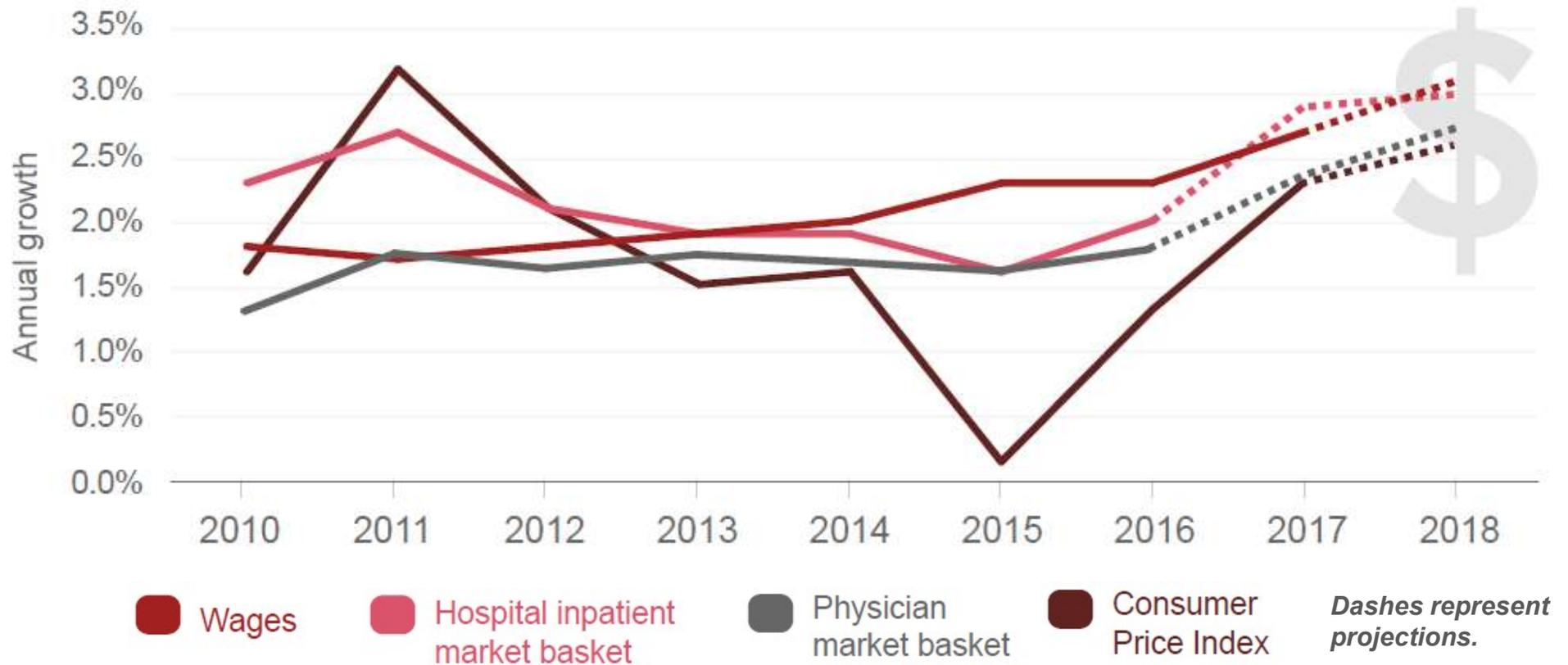


Source: PwC Health Research Institute analysis of CMS National Health Expenditure Accounts and Bureau of Labor Statistics data. Dashes represent projections.

Inflator #1: Rising general inflation impacts healthcare

The price of providing hospital and physician services has increased as the rate of general inflation growth has increased

Growth in wages and healthcare “market baskets”

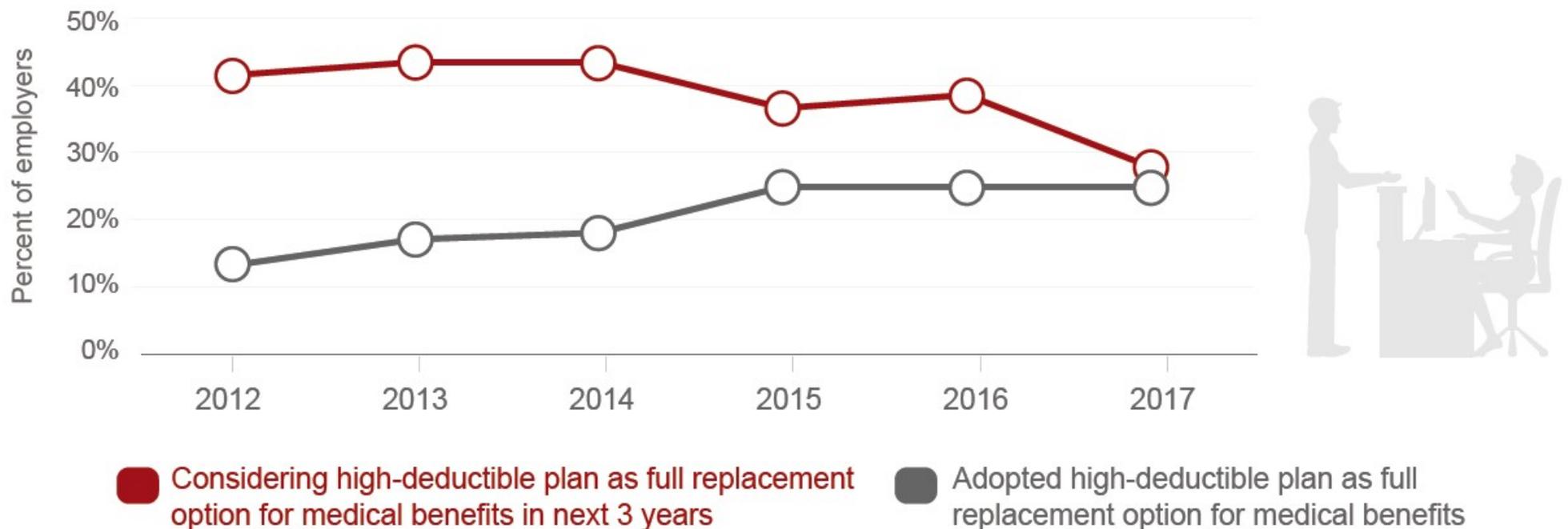


Source: PwC Health Research Institute analysis of CMS Market Basket, CMS National Health Expenditure Accounts, CBO Economic and Budget Outlook, and Bureau of Labor and Statistics data.

Inflator #2: Movement to high-deductible health plans loses steam

The share of employers considering a high-deductible health plan as a full replacement option is falling

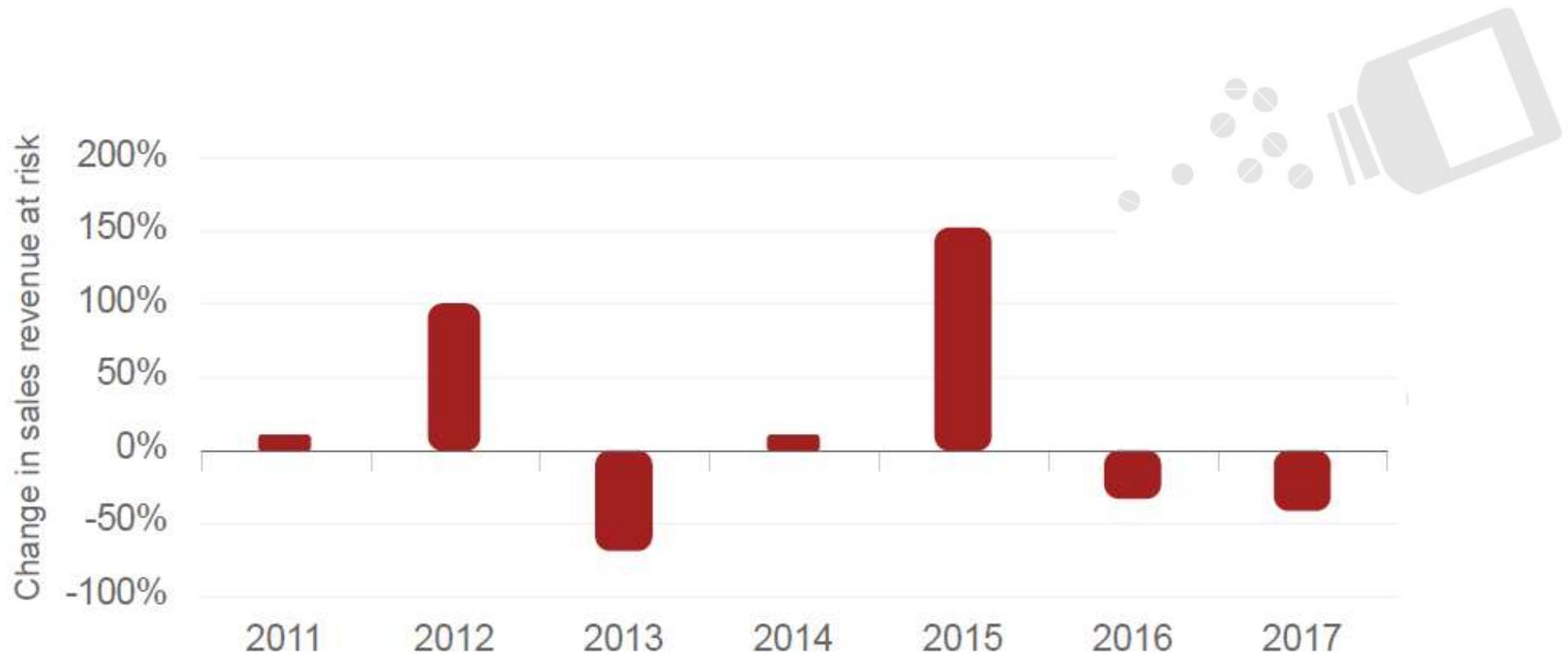
Percentage of employers who say they have adopted or are considering adopting a high-deductible plan as a full replacement option for medical benefits, 2012-2017



Source: PwC Health Research Institute analysis of PwC Health and Well-Being Touchstone Surveys, 2012-2017

Inflator #3: Fewer branded drugs come off patent

US pharmaceutical sales revenue associated with branded, small molecule drugs going off patent protection declined in 2016 and 2017

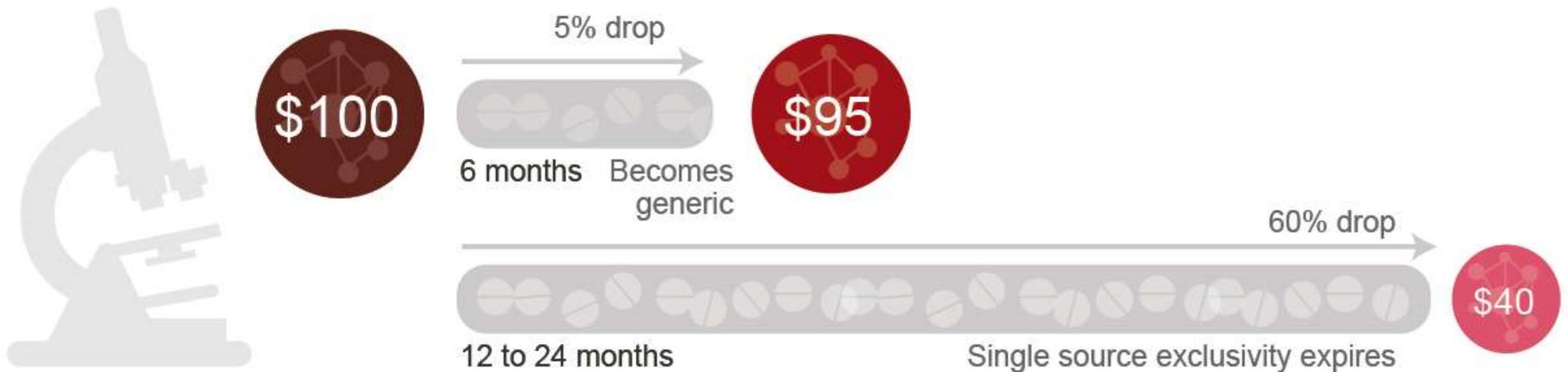


Source: PwC Health Research Institute analysis of Optum data

Inflator #3: Fewer branded drugs come off patent

Most of the cost-savings impact of a branded drug going off patent is usually seen 12 to 24 months following the patent's expiration

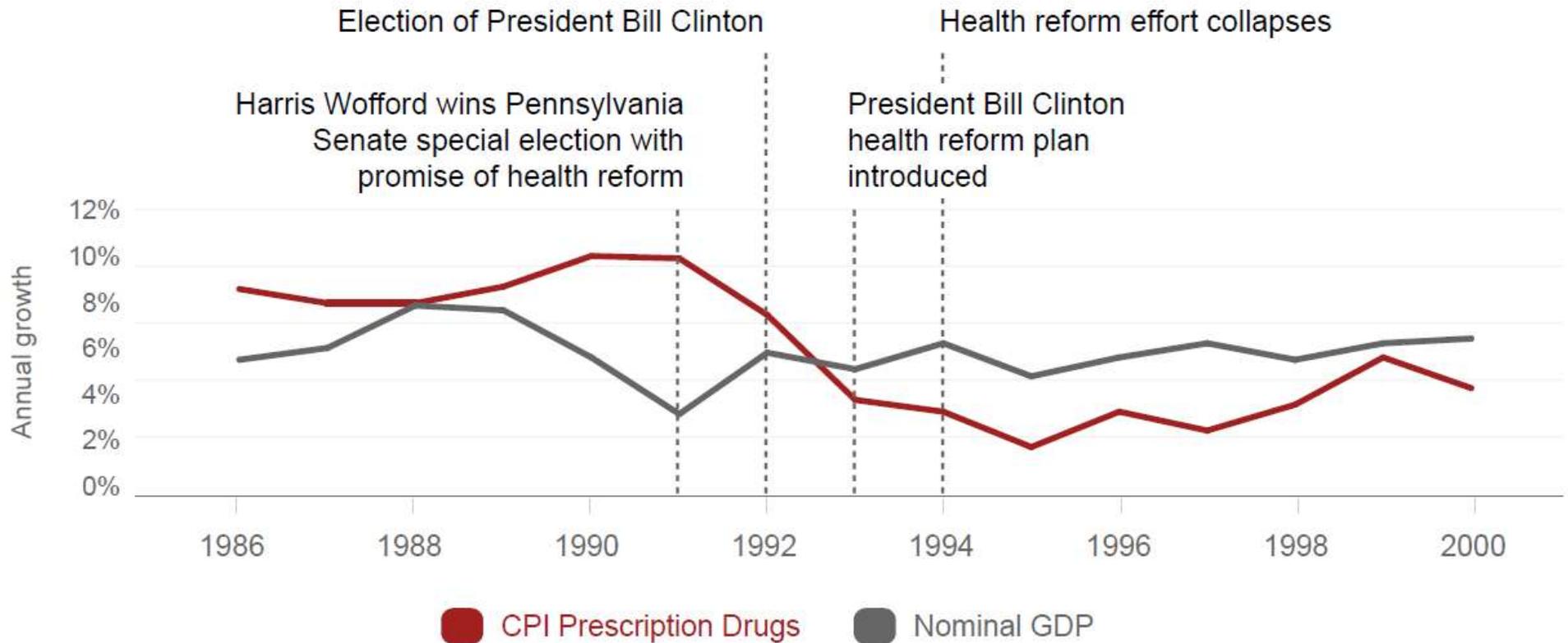
Example: A branded medication that sells for \$100 before patent expiration is sold for \$95 by a single generic manufacturer during the first six months, when that generic manufacturer is granted exclusivity for 180 days. However, over the next six to 18 months, as more companies are approved to produce the generic, the price drops to \$40.



Source: PwC Health Research Institute analysis of FDA data

Deflator #1: Political and public scrutiny puts pressure on drug prices

Public scrutiny and political pressure on pharmaceutical companies put downward pressure on the growth in drug costs in the 1990s

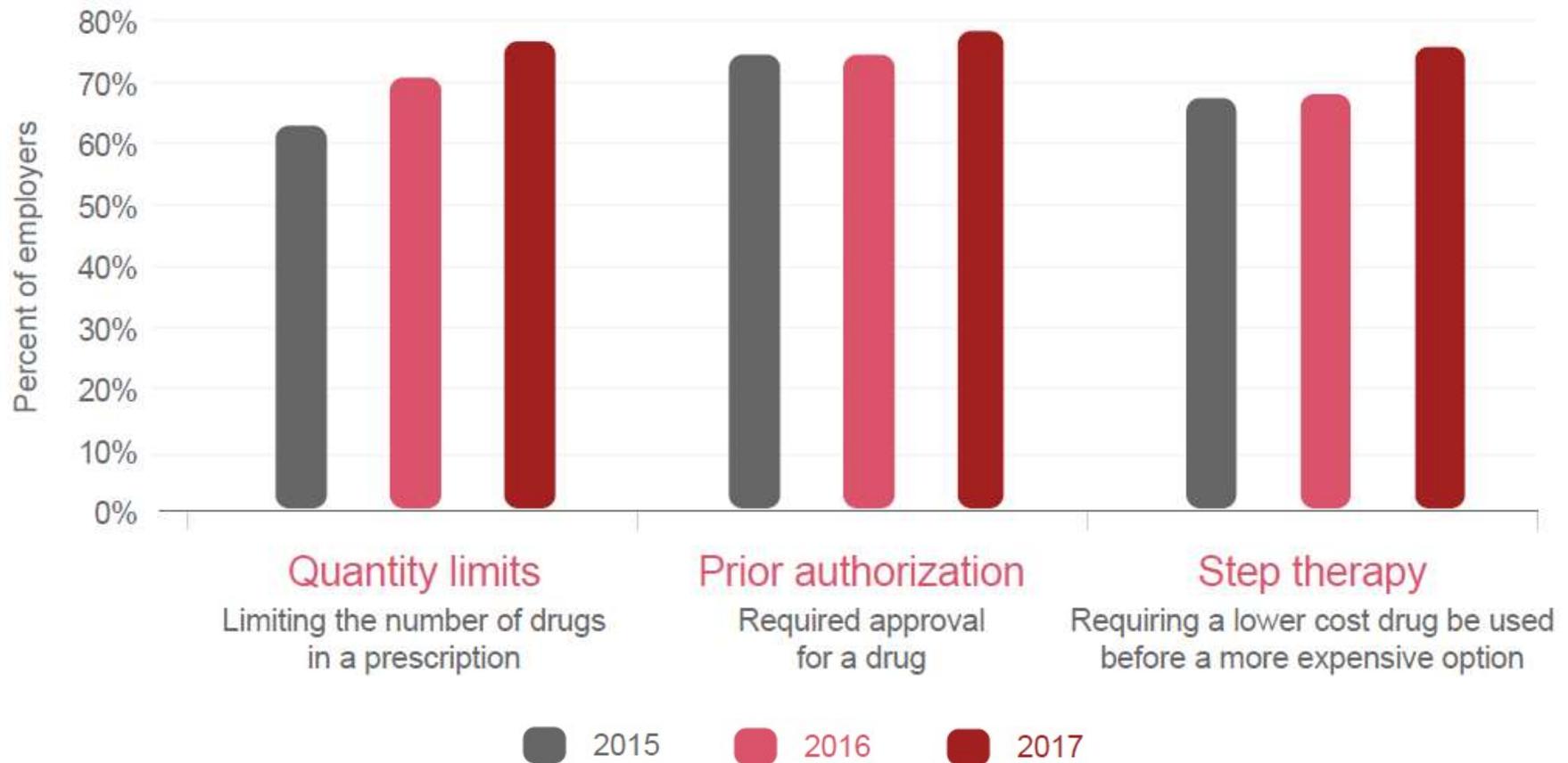


Source: PwC Health Research Institute analysis

Deflator #2: Employers target right people with right treatments to minimize waste

More employers say they are using strategies to minimize waste

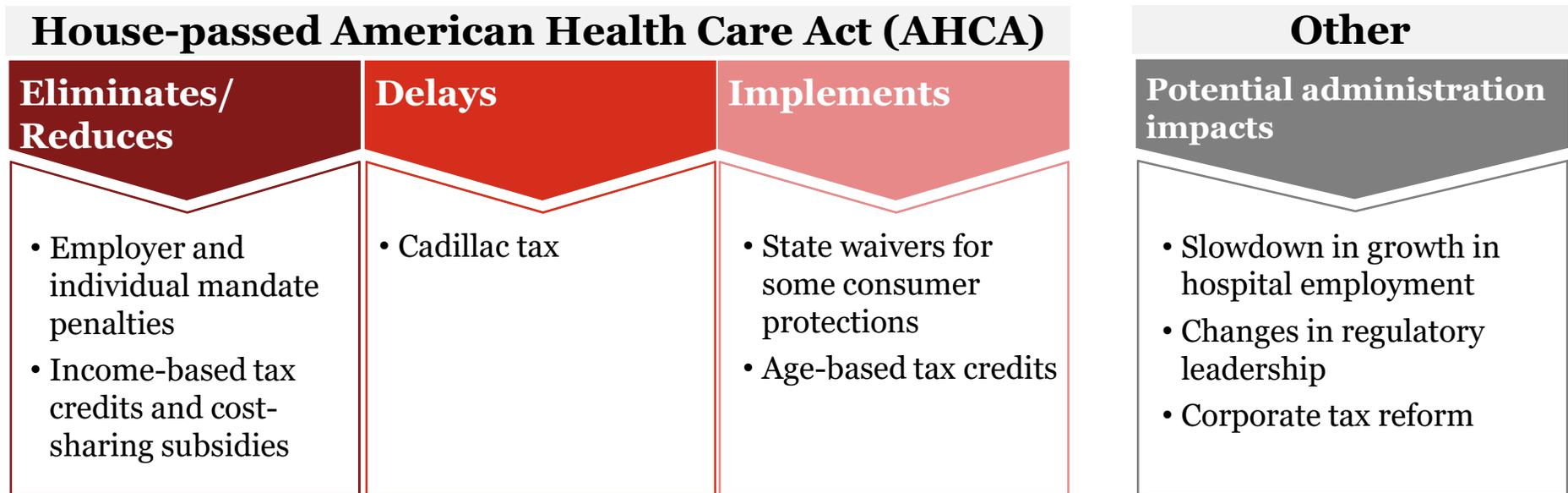
Percentage of employers who say they are using controls to manage specialty drug costs, 2015-2017



Source: PwC Health Research Institute analysis of PwC Touchstone Health and Well-being Surveys, 2015-2017

How could Trump administration policy impact employers and their healthcare spending?

Overall, the impact of Trump administration policy on employers and their healthcare costs is likely to be modest in the near term



Focus on value and push to reduce healthcare costs won't abate.

Employers need to look for new cost containment strategies beyond shifting more costs to employees



Employers



Healthcare providers



Health insurers



Pharmaceutical and life sciences

Things to consider:

Target work site health promotion programs to the right people



Consider harnessing biometric data and analytics tools to target health programs to the right people, treating populations as individuals rather than averages.

Evaluate the value of drug spending



Take a deep dive into claims data to identify what conditions and drugs drive spending. Employers can better evaluate new therapeutics' potential value and weigh added costs against potential benefits for employees.

Focus more on provider arrangements to tackle price



Focus on supply-side management like narrow networks and direct provider contracting to keep prices down. New entrants can be leveraged to bridge the gap with providers.

Healthcare providers need to seize opportunities to take on more risk and improve care management

Things to consider:



Employers



Healthcare providers



Health insurers



Pharmaceutical and life sciences

Assess skills mix



Make the most of staff's skills and productivity and ensure that all staff practice to the top of their license.

Look for new opportunities to manage drug costs



Ally with health insurers, patient advocacy organizations and the government to work with drug companies on pricing models the market can bear.

Demonstrate value to employers



Seize the opportunity to participate in pay-for-performance models. Providers that can guarantee prices and outcomes early can establish relationships with employers ahead of competitors.

Invest in care management



Focus on nonclinical staff like case managers and social workers who can help keep costs down through improved care coordination.

To prove their value to employers, health insurers need to help steer patients to most effective treatments, push for price transparency



Employers



Healthcare providers



Health insurers



Pharmaceutical and life sciences

Things to consider:

Look for ways to automate processes



Consider automating call center processes using advanced analytics and cloud-based technologies. Robotics can increase adjudication rate in claims processing.

Consider alternative therapies



Offer incentives to persuade patients to engage in alternative methods—such as lifestyle management—to manage chronic conditions without costly drugs. As they become available, explore building biosimilars into plans.

Explore value-based purchasing with biopharmaceutical companies



Consider outcomes-based payment models with drug companies. Facing greater scrutiny of their prices, they may be more interested in these arrangements, and health insurers may have more negotiating leverage.

To prove their value to employers, health insurers need to help steer patients to most effective treatments, push for price transparency



Employers



Healthcare providers



Health insurers



Pharmaceutical and life sciences

Things to consider:

Take ownership of collaborating with pharmaceutical companies and providers to manage high-risk patients



Work more closely with providers and pharmaceutical companies to identify high-risk patients and make sure they are adhering to their treatment.

Be providers' partner in reducing medical costs



Deploy care managers, social workers and community health workers to help consumers navigate the healthcare system and providers manage patients better. Supplying data and analytics also can give providers more insight into patient populations.

Drug companies need to increase collaboration, giving stakeholders greater insight into pricing, value

Things to consider:



Employers

Re-evaluate sales and marketing needs



Consider outsourcing nonclinical operations, including sales, marketing and manufacturing. Savings can be reinvested in strategic growth initiatives.



Healthcare providers

Model drug pricing policy impacts



Proactively model various drug pricing policy impacts to be prepared to give clear justifications for pricing decisions from the perspective of different customers.



Health insurers

Collaborate on pricing decisions upfront



Collaborate with PBMs and third-party drug value assessors to set prices before launch and avoid public backlash.



Pharmaceutical and life sciences

Educate providers on personalized medicine's benefits



Educate physicians on the latest genetic technology's benefits and its potential to eliminate costs from ineffective treatments.

Thank you!

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Benjamin Isgur
Health Research Institute Leader
214 754 5091
benjamin.isgur@pwc.com
[@bisgur](#)

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